

**PRESENTATION OF SUREWEST COMMUNICATIONS**  
**On “Non-Rural” USF Remand**  
January 27, 2004

**I. About SureWest:**

-SureWest Communications is a facilities-based provider of telecommunications services, based in Northern California. Through its subsidiary companies, SureWest provides ILEC, CLEC, cable TV, broadband and PCS services.

-SureWest's subsidiary SureWest Telephone (formerly Roseville Telephone Company—“RTC”) is an ILEC serving subscribers in southern Placer and northern Sacramento counties. SureWest Telephone is a rate-of-return carrier serving approximately 136,000 access lines in one study area.

-Because it has more than 100,000 lines in its single study area, SureWest is classified as a “non-rural” carrier for universal service purposes. SureWest thus finds itself grouped with large price cap holding companies hundreds of times its size, in terms of lines, switches, etc. (Verizon has 57,973,000 access lines, approximately 426 times as many as SureWest).

-As a result, SureWest has been denied high-cost support that its customers need, and other companies of its size and cost structure would normally receive.

**II. RTC Petition for Reconsideration of 10<sup>th</sup> R&O in Docket 96-45**

-In December 1999, RTC filed PFR of 10<sup>th</sup> R&O. RTC demonstrated that the economies of scale/scope and thus the costs of LECs like RTC were more like those of the rural LECs.

-RTC suggested that the dividing line between carriers for federal USF purposes should be changed to either:

-Carriers with less than 2% of the nation's subscriber lines, or

-200,000 access lines in a study area, consistent with the significant break in the current Part 36 Rules.

-The Commission never directly addressed the RTC PFR

### III. SureWest Petition for Reconsideration of Non-Rural Remand Order

-In Initial Comments and Reply Comments on the *Recommended Decision*, SureWest demonstrated that the *RD* failed to fulfill the Section 254(b)(3) requirement for reasonably comparable rates:

-achieving comparable rates based by comparing costs is flawed and inconsistent with Act. No necessary connection between costs and rates.

-*RD*'s proposed "supplemental" rate-based analysis to be performed by each state as part of a certification fails to actually compare intrastate rates with each other. The mere fact that all rates in a state are under some set benchmark does not, as a matter of logic or fact, mean that all of the rates under that benchmark are comparable to each other. If benchmark is \$32.00, the fact that two rates, \$30.00 and \$12.00, are both under the benchmark, does not mean that those rates are comparable to each other, since one rate is 250% greater than the other.

-SureWest Comments also showed that use of the Commission's forward-looking proxy cost model as the basis for determining high-cost support is a deeply flawed policy. The use of the proxy model is not appropriate for carriers, such as SureWest, that lack the economies of scale and scope of BOCs, and which have only two wire centers, since there is little chance for discrepancies between the proxy and real costs to average out. The Rural Task Force clearly recognized these principles.

-In January 2004 Petition for Recon of the FCC's *Remand Order*, SureWest noted:

-The Tenth Circuit had previously held that the "state certification" process was "inadequate" and specifically suggested that the FCC condition federal funding on state action insuring comparable intrastate rates. *Remand Order* merely tweaks the certification process by adding a flawed "rate review" that is vague and does not require actual rate comparison. There is no penalty for flawed certification, or mechanism for challenging such certifications.

-the 135% benchmark for comparability remains flawed – funding denied to almost all states. SureWest recommends 120% factor for actual comparison of intrastate rates.

-The "non-rural" mechanism must be revised or a new unified mechanism quickly adopted. One revision could be grant of RTC's PFR of 10<sup>th</sup> R&O.

Where do we go from here?

